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New York

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Each number contains a **special discussion** of some Sound Currency question.

"The depreciation of silver in the principal markets of the world continues, and as a consequence of the frequent fluctuation in the ratio of value between gold and silver coin, which fix circulation and international exchanges, our gold coin has been withdrawn from circulation, and the small amount issued from the mint is immediately sold for export by the owners at a premium of from 4 to 10 per cent., according to the price of gold drafts on London."—Chilean Director of the Mint, 1878.

"Laborers have seen their wages increased, but their habitations, food and clothing have increased in price in the same or in greater proportion to their wages. Artisans and small tradesmen have seen the cash value of their products diminish in the same manner. To-day they earn 2 pesos where yesterday they earned 1; but the 2 pesos to-day represent 26 pence and the former peso was worth 45. The same has happened to all tradesmen and manufacturers who, although they have sold their produce at prices apparently high, have, on the other hand, produced or bought at an exaggerated cost on account of the depreciation of money."—Deputy Maximiliano Ibanez, La Cuestion Economica.

CHEAP MONEY IN CHILE.

EDWARD H. STROBEL.

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CHEAP MONEY IN CHILE.

After an experience of seventeen years under the monetary system of fiduciary paper, Chile has successfully accomplished the resumption of specie payment.

In view of the importance of the operation, it is advisable to give a summary of the previous financial history of the country by tracing the steps which led to the introduction of inconvertible paper, explaining the financial difficulties which resulted therefrom, and examining the various laws which were enacted for the purpose of restoring a stable money to the Republic.

CHILEAN CURRENCY UNDER FREE COINAGE OF GOLD AND SILVER.

The Act of January 9, 1851, established in Chile the free and unlimited coinage of silver and gold at the ratio of 16.39 to 1, and authorized the issue from the mint of coins of the following weight and fineness:

Metal.	Coins.	Value in Pesos.	Fineness.	Weight of Each Coin.	
				Legal.	Fine.
Gold	Condor	10.00	0.900	Grams.	Grams.
	Doblon	5.00		15.2530	18.72770
	Escudo	2.00		7.6265	9.36385
	Peso	1.00		3.81325	4.681925
Silver	Fifty-cent piece	.50	0.900	19.0650	22.90950
	Twenty-cent piece	.20		7.6265	9.36385
	Ten-cent piece	.10		3.81325	4.681925
	Five-cent piece	.05		1.906625	2.3409625

According to the figures furnished by the Chilean Government there was, from 1859 to 1873, inclusive, presented for coinage at the mint 7,873,908.60 pesos* silver and 13,753,553 pesos gold.

Although the country is a large producer of silver, and an unimportant producer of gold, during that period an annual average of almost twice as much gold as silver was brought to the mint. On the other hand, during the following five years, from 1874 to 1878, there was presented to the mint 8,444,796.30 pesos of silver and only 298,228 gold. In other words, the coinage of gold practically ceased with startling suddenness, and the mint became overburdened with silver.

This change will be explained by a glance at the market price of silver. In 1851, the year of the passage of the Coinage Act of Chile, the average ratio between silver and gold was 15.46 to 1. In 1873 it was 15.43 to 1. Between these years the fluctuations in the ratio were slight and short, as it never rose to 16 to 1 nor fell to 15 to 1. In 1874 this steady average, which had corresponded to the production of the metals, was broken by the increased production of silver, and during that year the rates averaged about 16.16 to 1. In 1875 it averaged 16.39 to 1; in 1876, 17.80 to 1; in 1877, 17.19 to 1, and in 1878, 17.06 to 1.

Now, the ratio between the two metals established in Chile by the Act of 1851 was 16.39 to 1. Not until during 1874 did the ratio of silver to gold approach closely, and not until 1875 did it pass this figure.

Up to 1875 the silver peso was worth more than the gold peso, and the result was that until 1865 the circulating medium was almost entirely gold, and from 1865 to 1875 gold and bank notes, the entry of which into circulation will be explained later.

The material excess in the value of silver over gold not only caused the exportation of the greater proportion of silver taken from the mint, but also the immediate withdrawal of silver coin from circulation. To such an extent was this the case, that it became necessary by the Act of July 26, 1860, to authorize the coinage of gold pieces of 1 peso to take the place of the silver peso, which disappeared from circulation as soon as it issued from the mint.

As soon, however, as the depreciation of silver brought the value of the silver peso below that of the gold peso, gold took the place of silver as the metal for export, and instead of being presented at the mint in greater quantities than silver, there was a natural cessation of the coinage of gold, and a disappearance of gold coin from circulation. Though of course the effect of this depreciation was not felt as soon in Chile as in other countries, where the legal ratio was less, as for example, in France, where the ratio being 15½ to 1, there was, in 1873, deposited in the mint for coinage, 150,000,000 francs* worth of silver against only 5,000,000 francs in 1871 and 1872.

GOLD DRIVEN OUT BY SILVER ABOUT 1874.

In further explanation of the effects of the price of silver upon the circulation and coinage of the two metals under the system of free coinage, I quote at some length extracts from a very able report made in 1875 by the director of the mint, Señor R. Scomayor, to the Minister of Finance:

* The Spanish word *peso* is used in the report instead of the translation *dollar*, to avoid confusion with the American dollar. The *\$*, where used, also means peso.

"The gold and silver bullion bought in the past year, including that left over from 1874 and coin melted, represent the following values: Gold, 85,438.84; silver, 2,151,734.88 pesos. In 1874, gold, 158,426.14; silver, 1,477,074.71 pesos.

"I must here call attention to the rapid decrease in the presentation of gold bullion to the mint during the last three years. This results from causes which must have a powerful influence on our monetary situation, and which must produce alterations in trade that may not be transitory.

"Below is the amount of gold bullion obtained by the mint for its labors in the last four years:

Year.	Amount.	Decrease.
	Pesos.	Pesos.
1872	2,458,698.94	
1873	1,540,529.04	898,269.90
1874	158,426.14	1,382,102.90
1875	85,438.84	72,987.30

"The amount of gold introduced into the mint during 1872 and 1873 must be regarded as exceptional, because the first of these years was noted for our commercial prosperity throughout the whole country, and, in return for exports of national products, large sums of foreign gold coin were imported; and in the next year, there figures a million pesos from the loan made in London of that year. The average, however, of the purchase of gold by the mint in normal periods may be reckoned at 500,000 pesos a year—a sum scarcely sufficient for the interests of commerce by land with Argentina. In the present year, according to data which may serve as a basis for calculation, the introduction of gold will be less than in 1875; and if some unforeseen circumstance does not intervene, we must expect that the small annual production of gold will be exported as bullion instead of being brought for sale to the mint, for reasons which I will explain later.

"The bars of silver, on the contrary, show a value greatly superior to those presented in former years, and to the ordinary requirements of commerce. The introduction of this metal would have much exceeded the producing power of the mint if we had not adopted the measure of fixing periods of six months for payment of the bars, and if, in the month of August, we had not entirely suspended the purchase of silver. The mechanical forces of the mint were scarcely sufficient for coining silver bars at the rate of 250,000 per month, and the introduction of silver exceeded in some months 500,000 pesos—a circumstance which produced an accumulation of bars to the extent of 1,199,610.23 pesos.

"The State was, therefore, burdened with interest on this sum, which remained unproductive. If there had not been a temporary suspension in the purchase of silver there would have been an increase of more than 200,000 pesos a month until the motor and the nine machines which are now being erected had been put into operation and an equilibrium established between bullion introduced and coin.

"The causes of the scanty introduction of gold, as well as the excessive presentation of silver bullion, are well known. In my report of last year I informed you of the alarming fall in the price of silver in the London market, which regulates the commercial world. The price had then fallen to 57½ pence per ounce, from 60 to 60½ pence, which had been regarded as the normal price. This fall has since taken a course which, to avail myself of an expression used by an eminent writer on the subject, may be regarded as revolutionary. In the first days of the present month the price was 63½, or about 12 per cent. less than its normal price. Nor can we see any limit to this violent depreciation.

"With the radical change in the price of silver in London, gold in coin or bullion has been sought after for exportation in preference to silver or bills of exchange on Europe. It will be seen from the calculation given below that our gold coin is fated to disappear from our market, being undervalued as a result of our monetary system, unless commerce gives it the premium due.

"If we take as a basis of the value of silver the ounce Troy of 31.100 grams of standard fineness of 0.925, or 29.7675 grams of the silver at 53½ pence, and as a basis for gold the sovereign with a weight of fine gold of 7.3216 grams of 240 pence, its legal value, our silver peso will have an intrinsic value of 41.83, and the gold pesos 45 pence. This difference is equivalent to 7½ per cent. in favor of the latter, a premium which must be increased by greater facility in its transportation when both coins are regarded as material for export. The value of bills of exchange on Europe had to be modified in proportion to the depreciation of silver.

"The ordinary quotation of bills of exchange on London has been 44½ pence per peso, and is to-day at 41½ pence. This is equivalent to a fall of more than 7 per cent. In the coin with which the bill is paid, which is at present silver, and is equal, approximately, to the premium on gold, which has now become the metal for settling export balances.

"The remittances in gold, as has been before said, produce an exchange of 45 pence per peso at sight, and those of silver 41.83, less cost of packing, freight, insurance, and commission.

"The price of bills of exchange will have to be fixed, except in exceptional cases, when modified by excess of imports or exports, on a basis of value resulting from the remittances of silver pesos less the above mentioned expenses; and we can not hope to re-establish the circulation of gold coin at par with silver without a favorable reaction in the price of the latter metal in the London market. * * *

The direct result goes on to say:

"The opinion of scientific men is uniform in the belief that the economic situation created by the fall in silver will cause gold finally to prevail as the basis of the monetary system in the majority of nations.

"In Chile, as you know, the legal ratio between gold and silver coin is, according to the system in force, 1 to 16.39. This ratio formerly favored gold to the extent of more than 1 per cent, in comparison with 1 to 15.5 generally in force in Europe and America, which was nearer to the commercial value of both metals. This was the reason why until 1872 gold coin was relatively very abundant and in little demand for export, and silver was used in settling our balances with Europe. At present matters have undergone a radical change. As a result of the commercial ratio of 1 to 17.623, Chilean gold, which was before favored, has become undervalued in commercial transactions by about 7 per cent. As I have before stated, we have not had to wait for the result. The abundance of this gold coin has been followed by its almost entire disappearance from our market.

"The situation which I have just described must produce disturbances in trade. The price of bills of exchange on Europe, of merchandise imported, of national products, and even wages, being regulated by depreciated silver coin, will in course of time have to suffer further fluctuations until there is established a proper balance and a return to the normal situation."

In his report of 1878, the same director, referring to his report of 1876, quoted above, says:

"The depreciation of silver in the principal markets of the world continues, and as a consequence of the frequent fluctuation in the ratio of value between gold and silver coin, which fix circulation and international exchanges, our gold coin has been withdrawn from circulation, and the small amount issued by the mint is immediately sold for export by the owners at a premium of from 4 to 10 per cent., according to the price of gold drifts on London."

Thus, although the monetary system of Chile was theoretically bimetallic, the system really in force was monometallic, the medium of exchange being the cheaper of the two metals. As long as the market price of silver made this metal of more value than gold, at the ratio of 6.39 to one, there was no silver in circulation, and the country was on a nonmonetallic gold basis. As soon as silver depreciated but a few points below the above ratio gold vanished from circulation, and the country fell to a nonmonetallic silver basis.

As the decline from silver monometallism to inconvertible paper was largely due to the action of the banks, it becomes necessary to examine the constitution and methods of these institutions which have played an important part in the financial history of the country.

CHILEAN BANK ISSUES.

Banks of issue were authorized by the Act of July 23, 1860. By this act the capital of the bank must consist of money which is legal tender in the country, bars of gold or silver, or notes signed by persons who are known to be solvent, and payable in six months. The bank is authorized to issue notes payable at sight and to bearer to an amount equal to 150 per cent of its paid-up capital. These notes are of the denominations of 20, 50, 100 and 500 pesos, and are payable either in gold or silver coin. No provision was made by the law for the redemption of these notes, nor was there any provision regarding the amount of cash reserve or for the accumulation of a surplus; nor, with the exception that the bank could make no loans upon its own stock, was there any restriction on the amount of loans, or any provision regarding the security for the same. The result was that profits, which under the banking systems of other countries would go to the accumulation of a surplus or to making some provision for the redemption of notes, were expended in the dividends to the stockholders. Within the first half of every month the directors of the bank were required to make a statement to the minister of finance of the bank's condition at the end of the previous month.

Despite the careless liberality of the above law toward the banks in the matter of the issue of notes allowing, as it did, an issue of 150 per cent. of the bank's capital, and requiring no provision for their redemption, bank bills did not enter into circulation to any extent until 1865, the year of the breaking out of the war with Spain. Until that year the circulating medium of the country was gold, silver, as was shown above, being retired from circulation as soon as coined and the banks not having succeeded in securing the acceptance of their paper by the public. The circulation of bank bills was also undoubtedly impeded by the fact that the Act of July 23, 1860, did not provide for notes of smaller denomination than 20 pesos.

TEMPORARY INCONVERTIBILITY DURING THE WAR WITH SPAIN.

In view, however, of the conflict with Spain and the financial difficulties arising therefrom, in the latter part 1865, four banks of Chile were authorized to issue inconvertible notes to the amount of their loans to the Government. The circulation of the bills was also much facilitated by the repeal of the article of the banking act of June 23, 1860, which restricted the issue of the notes to the denomination of 20 pesos and upward. Notes from 1 peso upward were now authorized. These notes, however, cannot be regarded as absolutely inconvertible paper, as they were received for their face value by the Government, which, in return, required monthly redemption of a certain amount by the banks. This issue of paper was redeemed with more promptness than was required by the law, as the banks began to convert their paper from September 1, 1866. The best part of the strong financial condition of the country during this period is that in spite of the panic produced by the war the average rate of exchange during that year, 1865, was 45.92, and during the year 1866, 46.92 pence per peso.

QUASI-LEGAL TENDER BANK PAPER DRIVES SILVER FROM CIRCULATION.

The years 1874 and 1875 may be regarded as transitory in the monetary system of the country. Gold had taken the place of silver as the metal for export, and silver the place of gold as the circulating metal at home.

The prompt redemption of the bank notes issued during the war with Spain had increased public confidence in these notes. The issue of bills of small denomination and substitution of silver as the coin of the country greatly facilitated their use as money. The inconvenience of handling silver created an artificial demand for bills. The silver peso began to be displaced by bank notes, which were unsuspectingly received by the public and absorbed into circulation.

On December 31, 1869, the published statement of the banks showed the amount of notes in circulation to be 4,635,360 pesos, and this amount continued increasing until, in 1874, the bank notes in circulation exceeded 7,000,000 pesos.

In 1878, the Government in need of funds to meet deficits, the President was authorized for the term of one year to issue 10 per cent. treasury notes for the purpose of raising 3,000,000 pesos. In order to accomplish the taking up of this loan, by an act dated June 27, 1878, a contract was made with the banks making their notes receivable in Government offices to the extent of four times the amount of the above loan taken up by each.

Six incorporated banks and three private banks took up 2,325,000 pesos of this loan, thus making their issues receivable by the Government to the amount of 10,000,000 pesos.

By article 6 of the above act the banks were to deposit, as security with the Government, treasury notes to the extent of 25 per cent. of their issue within the above limit. The amount of bills that each of the contracting banks had in circulation did not reach the amount which by the act obtained the privilege of being received in all the Government offices in payment of taxes and other dues.

The enactment of the above law gave the final blow to the circulation of silver. As the bank bills were received by the Government offices and performed all the functions of coin, there was no object in using the metal, which, consequently, entirely disappeared from circulation.

CRITICAL CONDITION OF THE BANKS.

The flight of gold from the country and the haste of silver to follow in its footsteps did not instill prudence into the management of the banks, either regarding the amount of their issue or the accumulation of a reserve for its redemption. They had, however, been very successful in the earning of dividends. From 1872 to 1878 the bank of Chile had distributed to its stockholders 122 per cent. in dividends, or more than 20 per cent. a year. In the year 1872 it distributed 24 per cent., and in 1873 another dividend of 22 per cent. In 1875 it distributed a dividend of 20 per cent. The majority of the other banks also paid large dividends.*

The statement of the condition of the banks on June 30, 1878, was as follows:

General Summary of Bank Balances on June 30, 1878.

Banks.	Paid up capital.	Reserve fund.	Deposits.	Notes in circulation.	Acceptances and pending operations.	Ballion and coin.	Investments and loans.
	<i>Peños.</i>	<i>Peños.</i>	<i>Peños.</i>	<i>Peños.</i>	<i>Peños.</i>	<i>Peños.</i>	<i>Peños.</i>
Valparaiso.....	6,140,000	500,000	7,385,886	2,355,246	123,944	656,071	13,701,000
Chile.....	4,000,000	200,000	15,000,835	2,500,265	721,308	104,257	18,776,000
Alliance.....	1,000,000	35,533	879,740	1,159,132	105,281	102,559	2,045,000
Concepcion.....	400,000	37,773	808,829	307,181	35,285	62,211	1,536,000
Consolidated.....	1,500,000	50,000	2,454,703	358,862	220,849	228,722	2,942,000
Mobiliar.....	1,125,000	30,897	650,537	92,951	.....	33,768	1,235,000
Agricultural.....	1,800,000	157,219	465,000	297,716	.....	33,421	2,453,000
Union.....	282,568	3,592	93,276	46,317	30,625	27,472	280,000
Total.....	16,157,588	1,315,325	27,904,267	7,028,600	1,261,518	2,112,618	44,063,000

* Senador Agustín Ross, El Problema Financiero, p. 22.

It will be seen that the banks had on hand only 2,129,618 pesos in coin to meet 7,285,600 pesos of notes in circulation, and 27,904,267 pesos of deposits. The Bank of Chile, the principal bank of the country, had only 914,525 pesos in coin to meet 2,509,825 pesos of notes and 15,060,833 pesos of deposits.

By the commercial code all stockholders in a joint-stock company are indirectly liable for claims against the company to the extent of their unpaid subscription. It was feared that the banks might be compelled to call upon their stockholders to enable them to meet their obligations.* As will be seen by comparing the proportion of paid-up capital and of coin on hand to liabilities, the principal bank of the country, the Bank of Chile, had a paid-up capital which amounted to only 24.6 per cent. of its liabilities and coin on hand amounting to only 4.9 per cent. of its liabilities. The Government also had a current account with this bank, was indebted to it for about 3,000,000 pesos, and was drawing further drafts upon it. The bank informed the Government that it could not meet these drafts, and that unless some measure of relief was given it would be forced to close its doors. At its solicitation, and from fear of a panic that would involve other banks, on the night of July 23, 1878, the House of Deputies was summoned to an extraordinary session, according to the statement of its president, "on account of grave and urgent matters."

BANK ISSUES MADE INCONVERTIBLE PAPER BY LAW.

In secret session a communication from the Senate was read transmitting a bill which established the inconvertibility of the bank notes until August 31, 1879.

After a stormy session, which terminated at 4 o'clock in the morning, in which it was explained that the bill had been presented by agreement with a certain banking institution, a law was enacted by a vote of 46 to 9, and promulgated by 10 o'clock on the following morning, the principal provisions of which were as follows:

(1) The amount of the issues receivable by the Government officials was limited to 10,000,000 pesos, the sum fixed by the act of July 27, 1878.

(2) The banks must deposit it in the Government offices obligations of the State or mortgage bonds, as a preferred guaranty, in favor of the holders of their notes over general creditors. Fifty per cent. of this deposit must be made within fifteen days, 25 per cent. within two months and a half, and the remaining 25 per cent. within four months.

(3) The banks must pay to the treasury monthly interest at the rate of 4 per cent. a year on the amount of their circulation.

In return, the State guaranteed that the bank notes would be redeemed in specie on August 31, 1879.

In view of the haste in which the above law was enacted, it was elaborated by the act of September 6 of the same year. This act increased the amount of inconvertible paper which could be issued by the banks to 15,010,000 pesos, and distributed this sum in the following proportions:

Banks.	Inconvertible emission.	Banks.	Inconvertible emission.
	Pesos.		Pesos.
National Bank of Chile.....	4,000,000	Concepcion.....	400,000
Algarrobo.....	4,000,000	Mobiler.....	400,000
E. Edwards & Co.....	2,100,000	Union.....	300,000
Consolidated.....	1,000,000	Oss.....	250,000
Matta & Co.....	800,000	Total.....	15,010,000
Finance.....	600,000		
Agricultural.....	600,000		

According to the provisions of this act, the notes issued must be registered in the mint, and must bear the inscription "Guaranteed and inconvertible by law." The banks were obliged to keep on deposit coin, bullion, Government obligations, or notes of the mortgage banks † to the amount of their inconvertible issue; and these inconvertible notes were to be retired from circulation at the rate of 5 per cent. per month, beginning June 30, 1879. The guarantee for the issue, consisting of bonds or other obligations, must be replaced by gold or silver, coin or bullion, at the rate of 4 per cent. a month. The Government guaranteed the return to specie payments by the banks on May 1, 1880. The whole circulation of the banks, convertible and inconvertible, taken together, could not exceed the amount fixed by the Banking Act of July 23, 1880, that is 150 per cent. of the paid-up capital of the banks.

* R. E. Santelices, Los Bancos Chilenos, p. 194.

† These banks, which are an imitation of the French banques hypothecaires, were established in Chile by the act of August 26, 1853. They lend money upon real estate in return for certain annual payments: first, not exceeding 8 per cent. for interest; second, not less than 1 nor more than 2 per cent. for a sinking fund; and third, not more than one-half per cent. for a reserve fund and expenses.

The loan is given in the form of notes of credit (letras de credito) the payment of which is guaranteed by the bank. These notes are drawn by lot every six months, or oftener if the bank decides, to the amount of the sinking fund which the bank has for the purpose. They belong to different series: according to the interest they bear, which is either 5, 6, 7, or 8 per cent. per annum. They are made out payable to bearer or to order, according to the wishes of the borrower, are negotiable, and are quoted daily in the open market.

From the bank statement published on June 30, 1878, and already given, the paid-up capital of the banks amounted to 16,157,588 pesos, so that the banks were enabled to issue 28,736,382 pesos, of which 15,010,000 pesos was inconvertible paper.

On July 30, 1878, as seen from the bank statement of that date, the issue only reached 8,549,089 pesos, from which there should be deducted a sum not less than 2,000,000 pesos, entered in the statement of that date, as notes of the other banks. The 15,010,000 pesos of inconvertible paper, allowed by the law of September 6, 1878, seems to be out of proportion with the quantity of notes in circulation up to this time. The clause of the act of September 6, 1878, providing that the inconvertibility of the bank should cease on May 1, 1880, became entirely inoperative by the breaking out of the war with Peru and Bolivia. Instead of there being any prospect of the redemption of bank notes, the Government now began to issue a paper currency of its own.

GOVERNMENT PAPER ISSUES.

DURING THE WAR WITH PERU AND BOLIVIA.

War was declared against Peru and Bolivia on April 5, 1879, and by an act of Congress of the 10th of the same month the President was authorized to issue directly or through the banks 6,000,000 pesos in notes.

A satisfactory agreement not having been made with the banks, it was decided that the Government should issue its own paper. As there were no facilities for engraving bills of suitable denomination, treasury notes of 1,000 pesos, running for five years, were provisionally made legal tender for the above amount. By an act of August 26, of the same year, there was authorized a further issue of treasury notes of 6,000,000 pesos.

As a result of these measures, and of the commercial crisis produced by the war, exchange on Europe fell to an extent that threatened to make the subsidiary silver coinage disappear from the country, and in order to prevent this, the fineness of the subsidiary silver, by an act of June 13, 1879, was reduced from nine-tenths to five-tenths.

In October, 1879, exchange reached 24½ pence, and it was feared that even the debased silver coinage would be withdrawn from the country. The Government therefore ordered from the United States a number of bills of 20 and 50 cents, to put in circulation. In consequence, however, of the capture of the Peruvian monitor "Huascar," and other successes of the Chilean army, exchange rose, and it was not found necessary to use these bills.

By the acts of January 10, 1880, and August 19, 1880, respectively, there were further issues of 4,000,000 and 12,000,000 pesos of treasury notes. The latter act also provided that the treasury should receive on deposit the treasury notes issued under these and the previous acts, to the extent of 12,000,000 pesos, in sums of not less than 100 pesos, and for periods of not less than thirty days, and should pay interest at the rate of 5 per cent. per annum.

The summary of the issues is as follows:

Act of—	Pesos.
April 10, 1879.....	6,000,000
August 26, 1879.....	6,000,000
January 10, 1880.....	4,000,000
August 19, 1880.....	12,000,000
Total.....	28,000,000

By a decree of November 12, 1881, all the above treasury notes, which were regarded as a provisional issue, were ordered to be retired from circulation and to be replaced by 28,000,000 pesos of bank notes engraved in the United States. It required four years to complete this substitution.

The new notes were issued in various denominations from 1 peso to 1,000 pesos.

ISSUES BY PRESIDENT BALMACEDA DURING THE REVOLUTION.

Between the close of the war with Peru and Bolivia and the beginning of the civil war between President Balmaceda and the Congress, in January, 1891, the circulation of the Government notes had been reduced from 28,000,000 to about 21,000,000 pesos.*

In consequence of the financial disturbance caused by the breaking out of the civil war there was a withdrawal of deposits, and the condition of the banks again became critical. At the instance and under the influence of the Government, representatives of the three principal banks presented a petition to the President requesting the suspension of the accumulation of silver, and of the retirement of notes from circulation, and the issue of 12,000,000 pesos by the Government and a loan of 15,000,000 pesos to the banks. This petition was granted by a decree of President Balmaceda, dated February 1, 1891.

* In accordance with the Act of March 14, 1887, which provided for an accumulation of silver and the monthly retirement of a certain amount of notes. The provisions of this act will be given later.

On June 15 an issue of 2,000,000 pesos, in notes of 50 cents each, was authorized by Congress. On July 22 the President was further authorized to issue notes in 5,000,000 pesos, convertible for silver pesos, and on July 26 to coin 2,000,000 pesos more in fractional coin of silver of less than two-tenths fineness. Finally, on August 18 Congress authorized an issue of 15,000,000 pesos more of Government notes.

For these paper issues the Government of President Balmaceda used at first the blank Government notes on hand, and after these were exhausted the bank notes in blank, to which were affixed the signatures of Government officials and the seals of the treasury.

In addition to the above operations, by act of Congress dated June 6, 1891, the Balmaceda Government was authorized to consider as Government bills all the bank bills registered at the mint. The treasury was authorized to open an account current with the banks and to draw monthly upon them to the extent of 15 per cent. of their issue. This appropriation of the issue of the banks by the Balmaceda Government, at the time of its defeat, amounted to 8,918,836.68 pesos.

The Junta appointed by the revolutionists, which had established an independent government in the north, with a residence in Iquique, by a decree of March 9, 1891, declared the paper issue of the Balmaceda Government to be illegal; and this decree was enforced during the war in the zone over which the Congressional party exercised authority.

After the victory of the Congressional party, in August, 1891, the circulation of the country was as follows:

	Pesos.
Paper issue of the Government before the civil war	21,187,915 00
Issue of the banks	20,320,431 00
Issue of President Balmaceda during the civil war	20,770,388 50
Fractional coins of five-tenths fineness	4,099,266 30
Fractional coins of two-tenths fineness	774,851 50

Total

Of the above sum of 83,370,491 pesos of notes issued during 1891, there were in the vaults of the different banks, in their Santiago offices, more than 12,000,000 pesos, and, as the circulation of these notes had not been recognized by the victorious party, the directors of the bank addressed a petition to the Government requesting that the notes be received in Government offices. In consequence of this petition, on September 9, 1891, the Junta reversed its decree of March 9, 1891, and ordered the Balmaceda issue of notes to be received by the Government offices.

By the act of February 2, 1892, the President was authorized by Congress to contract a loan to the amount of 21,000,000 pesos by issuing treasury notes for the purpose of canceling the Balmaceda issue as well as the fractional coins issued by the same Government, in accordance with the acts of May 2 and July 5, 1891.

Through fear, however, of a contraction of the circulating medium there was of the Balmaceda issue retired from circulation and destroyed only 1,087,000 pesos, which were in possession of the Government, and 9,500,000 pesos, which were furnished to the Government by the banks in return for treasury notes. Nearly half of the paper issued during the Balmaceda administration, therefore, remained in circulation.

There still remained the debt of 8,918,836.68 pesos to the banks contracted by President Balmaceda in consequence of the appropriation of their issue. By the Act of February 4, 1893, the Government also canceled this obligation, by an issue of treasury notes to the banks.

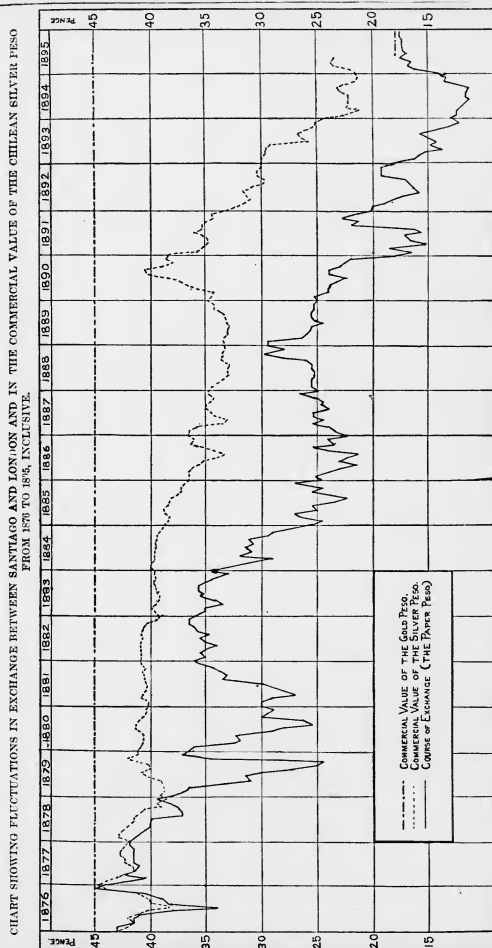
FLUCTUATION IN EXCHANGE AND DEPRECIATION OF THE PAPER PESO.

This report is accompanied by a chart on which a broken and a heavy line are marked. The broken line represents, by monthly averages, the fluctuation between 1876 and 1895 of the 25-gram silver peso of nine-tenths fineness. In consequence of the depreciation of silver, this peso, being the cheaper, became the monetary unit of the country instead of the gold peso. It governed the rate of exchange during 1873 and 1877; it was the coin upon which all calculations looking toward the redemption of the Government paper were based, and it continually appears in the discussions regarding the resumption of specie payments.

The heavy line upon the chart represents by monthly averages the fluctuation of exchange between Santiago and London from 1876 to 1895. From 1865 until 1876, the year with which this line begins, the annual average rate of exchange was as follows:

Pence.	Pesos.
865.....	45 02 1879.....
866.....	46 28 1880.....
867.....	41 40 1881.....
868.....	46 14 1882.....

Taking the intrinsic value of the gold peso at about 45 pence until 1873, when the depreciation of silver began, the rate of exchange was, without exception, higher than the value of the coin in circulation, because the rate was based on the silver peso, which was used for export and which was at that time the more valuable of the two metals. In 1874 the reverse of this took place. Silver fell to 57½ pence per ounce, and in 1875 to 56½ pence. In 1874 exchange averaged about 44½ pence, and in 1875 about 44 pence.



In consequence of the drain of gold during 1874 and 1875, from 1875 until the enactment of the law of July, 1878, making the bank notes inconvertible, the country was on a silver basis. Thenceforth until June, 1895, the monetary system was inconvertible paper. A glance at the line representing the fluctuation of exchange, and consequently, from 1876 to 1878, the gold equivalent of the silver peso, and from 1878 to 1895 the gold equivalent of the paper peso, will show the result of a monetary system where the simplest financial operation and the commonest transaction of everyday life are of the nature of a speculation.

Taking first the two years 1876 and 1877, when the country was on a silver basis, the line of exchange runs closely to the line of the value of the silver peso, making, of course, a deduction for the expenses of exportation, and allowing for its being affected by trade conditions. In January, 1876, exchange and the value of the silver peso both stood at about 43 pence. On June 18, 1876, the value of the silver peso had fallen to 31 pence, and exchange dropped to 34 pence. The silver peso then rose steadily until at the beginning of 1877 it reached 44 pence, and exchange followed and overtook it. The silver peso again descended to 41 pence in July, 1878. The line of exchange followed running almost parallel, until in the same month it averaged 40 pence.

To this time the rate of exchange was largely influenced by the value of the silver peso, and the line representing the fluctuation of the former follows the line representing the fluctuation of the latter; but with the enactment of the law of July, 1878, making the bank paper inconvertible, and the issue of Government paper in 1879, new and important factors now affect the course of exchange. The line of the value of the silver peso and the line of the course of exchange now part company, and fluctuate quite independently of each other. We therefore leave the dash line and for the remainder of the period covered by the chart continue to follow the line of exchange, which also represents the fluctuation in the gold value of the paper peso.

After a fall in the month of August, 1878, to about 37 pence, exchange rose in December until it reached 41 pence. It then steadily descended, and at the time of the occupation of the Bolivian port of Antofagasta in February, 1879, the peso was worth about 37 pence. It continued to fall steadily, and during the month of April, the month of the declaration of war against Peru and Bolivia, it averaged only 33 pence. It continued to fall steadily until the month of October, when it reached 24 pence—a fall which made the Government fear that the fractional silver would disappear from the country, and induced them to order fractional paper currency to be engraved in the United States. With the capture of the Peruvian monitor "Huascar," when the ultimate triumph of the Chileans in the war seemed to be assured, the value of the peso rose steadily and quickly through the months of November and December until in the last month of 1879 it had touched 37 pence. A reaction then took place, and in the year 1880, after a steady decline from January to August, it reached, in the latter month, 25 pence, then rose to 30 pence in October, and, with slight fluctuations, fell in April, 1881, to 27 pence. It then rose steadily again until in January, 1882, it touched 36 pence, and in December of the same year, with slight fluctuations, it reached 39 pence—a point it never again attained.

Strangely enough, in spite of the conquest of Bolivia and Peru, and the great addition to the resources of the Government by the annexation of the rich province of Tarapacá, at the close of 1882, the course of the value of the peso, although marked by many fluctuations, was steadily downward. In April, 1884, it had fallen to 29½ pence, and, with slight reaction, continued to fall until in August, 1885, it touched 24 pence. It then rose until at the end of 1885 it reached 27 pence, and fell again until in August, 1886, it reached 21½ pence. It then took an upward turn until, in the month of November, 1888, it reached 30 pence. From this point the course was again steadily downward until in the month of December, 1890, it averaged 22 pence. With the outbreak of the revolution in 1891, it fell with startling suddenness through January, February and March, until in the month of April of that year it touched 15½ pence. It then took an upward turn, until in the month of May it averaged 17½ pence. There was another slight fall until the triumph of the Congressional party, in August, 1891, drove it swiftly up to 23½ pence, which it averaged in the month of November, 1891.

With the re-establishment of peace, the prospect of returning prosperity, and the expressed determination of the new Government to provide for the resumption of specie payment, it was natural to expect that exchange would continue to rise. Contrary to expectation, however, it fell steadily until, in May, 1892, it touched 16 pence, when it reacted quickly, and averaged 19 pence during the months of October and November. With the beginning of December, 1892, it fell rapidly through the months of December, 1892, and January, February, March, April and May, 1893. In the last month it had fallen as low as 14 pence. The line then took an upward turn with fluctuations until, in September, 1893, the peso averaged 15½ pence, and from that point it steadily fell until in June, 1894, it averaged only 11½ pence, the lowest average the peso has ever reached.

It then rose to 14 pence in the latter part of 1894 and in the beginning of 1895. From this point, under the influence of the public expectation of the prompt resump-

tion of specie payment, at the rate of 18 pence per paper peso, it rose steadily until, on the date of the resumption, on June 1, 1895, it stood at 17½ pence.

CAUSES OF THE DEPRECIATION OF THE PAPER PESO.

It is often said that the Chilean paper peso has depreciated from a peso formerly 48 pence. It must be remembered, however, that exchange in Chile only reached 48 pence in consequence of exchange being fixed by the silver peso of 25 grams, which was more valuable than the gold peso until the depreciation of silver began in 1873. The intrinsic value of the gold peso was only about 45 pence; so that if the paper peso were convertible into gold, its value would not be greater than 45 pence.

With an issue of inconvertible paper by the banks and the Government, we have in circulation simply a promise to pay instead of a coin, and this promise to pay is either in silver or in gold. As the Act of 1851 made the monetary unit either 1.5238 grams of gold nine-tenths fine, or 25 grams of silver nine-tenths fine, it was, of course, assumed, that the paper peso would be ultimately paid in the cheaper of these two coins. This coin, in consequence of the depreciation of silver, was the silver peso.

The monetary unit in which the paper would naturally be redeemed being the silver peso of 25 grams nine-tenths fineness, from the time of the introduction of paper money the bank notes and the Government notes had a nominal value corresponding to the silver and not to the gold peso.

By following the dash line on the chart, representing the fluctuation of the silver peso, it will be seen that the silver peso, which, in July, 1878, when the bank notes were made inconvertible, was equivalent to a promise to pay about 40 pence, and in April, 1879, when the first paper was issued by the Government, was a promise to pay about 39 pence, fell and continued falling, until early in 1895 it was a promise to pay not more than about 21 pence. It is therefore quite natural that in consequence of the decrease in the value of the silver peso the paper peso should have depreciated as low as 24, 23, or 21 pence. But paper is not real money, it merely represents real money, and is but a moral obligation to pay real money at an uncertain date. It goes into circulation handicapped, so to speak, and will usually run lower than the value of the coin it represents. It is therefore natural that the value of the paper peso should have fallen several points below the value of the silver peso, or that it should reach 19 or even 18 pence.

It is more difficult to explain why it should have fallen much lower, averaging, as it did in the month of June, 1894, only 11½ pence. Government paper will depreciate as a result of over-issue, but there has been no inflation in Chile. The circulation, in round numbers, is 50,000,000 pesos—about 30,000,000 Government notes and 20,000,000 bank notes. With a population of about 3,000,000, this gives 16.66 paper pesos to each of the inhabitants, or, valuing the paper peso at 18 pence, about \$5.84 United States gold—as small a circulation as exists in any civilized country. Nor has there been any lack of resources on the part of the Government, which could have redeemed its notes at any time since the close of the war with Peru and Bolivia.

A number of speeches and pamphlets have been devoted to proving that the depreciation of the paper peso has resulted from an adverse balance of trade. But the most casual investigation of the statistics of imports and exports of Chile demonstrates clearly the hopelessness of efforts to explain this financial phenomenon by referring it to the balance of trade.

The depreciation of the paper peso is probably due to several causes. There has been a lack of confidence, not in the ability but in the intention of the Government to redeem its paper. To quote a statement of an accomplished writer on this subject:

"The Government of Chile, when it promised to redeem in gold or silver its paper issue, without fixing a date for such payment, contracted a moral engagement to pay 'in so obligations as soon as the exceptional circumstances which necessitated the issue' had passed and the Government was in possession of the resources necessary. The fact is, that although it has been for some years in possession of these resources, the Government has devoted them to everything except to the accomplishment of its 'pledged word.' The surplus millions were devoted to objects more or less useful or 'were retained in the mint; but the notes were not paid. As credit is obtained and 'preserved by the faithful and exact discharge of obligations, confidence in an early resumption has been weakening little by little, and the internal credit of the Government of Chile has been weakening in proportion."

When it finally attacked the question of resumption, Congress was unfortunate in its well-meant efforts, and the disappointing results of the Resumption Acts of 1892 and 1893 will be explained in the discussion of this legislation. The Government has also required 25 per cent. of the customs duties to be paid in gold or drafts on London. In other words, it refused to accept in payment of duties its own obligations at their nominal value, and thus discriminated against its own notes.

The above causes may explain the steady depreciation of the peso, but the oscillation by fits and starts in the line of exchange can only be due to speculation. Chile, for several reasons, affords an excellent field for speculation in exchange. The 40,000,000

pesos, the value of the annual exportation of nitrate, are in the hands of a few people. It has been to the interest of exporters to reduce the value of paper in comparison to gold. They are paid in gold, or, in other words, draw upon Europe drafts, payable in gold. The lower the value of the paper peso the greater amount they obtain in Chile for their drafts. Importing houses have been in the habit of cornering drafts on Europe for particular months. It is only by such speculation that variations of one penny or more will win twenty-four hours—that is, from 5 to 10 per cent. In the value of the paper peso—can be explained.

INFLUENCE OF CURRENCY DEPRECIATION ON WAGES.

In order to learn whether a rise in wages had corresponded with the depreciation of the paper peso, I have endeavored to secure statistics regarding the rates of wages which have prevailed since the issue of inconvertible paper. I have found it very difficult to obtain full and accurate information. There is no statistical bureau connected with the Government for this purpose. The Society for the Encouragement of Industries has lately obtained an appropriation from the Government, and intends in the future to collect statistics on wages.

In order to secure the best information possible, I addressed a communication to the various consular representatives of the United States in Chile, requesting them to forward me whatever information was procurable regarding the rates of wages in their districts. Before giving the information I have obtained, it must be remembered that there is a great difference in wages paid in the north and in the south of the Republic. In the north, where there is a great demand for labor in the nitrate fields, and where there is a sparse population, wages are very much higher than those paid in the south.

Taking first the north of Chile, Mr. David Simpson, United States Vice-Consul in Antofagasta, reports that the wages ruling during 1875-1895 in Tacna are payable in Bolivian currency, and that no change has taken place, although silver has fallen in price; that in Iquica the same system ruled (payment in Bolivian currency) until 1880, when the wages were altered to Chilean currency without any increase, both currencies being more or less of the same value. The present wages ruling at this port, according to the statement of the Vice-Consul, are as follows: Laborers, 3 pesos a day; longshoremen, 3 pesos a day; clerks, 50 to 120 pesos a month; servants, 15 to 25 pesos a month.

Dr. J. W. Merriam, United States Consul at Iquique, says:

"In my opinion, rates of wages paid have varied to a certain extent according to the rate of exchange, but not in proportion to the extent of the fluctuations. Employment without doubt have been less favored than day laborers in this respect."

Mr. C. C. Greene, vice consul at Antofagasta, gives the following table of the annual average of wages during 1873, 1883 and 1895, in comparison with the annual average value of the paper peso for the same years:

Class.	1873 (43½ pence).	1883 (30 pence).	1895 (17 pence).
	Pesos.	Pesos.	Pesos.
Meat andos, drivers.	3.00 to 4.50	5.00 to 5.50	4.75 to 6.50
Bull makers.	3.50 to 4.00	3.50 to 4.00	5.00 to 5.25
Bull smiths.	3.50 to 4.00	3.50 to 4.00	4.00 to 6.00
Carpenters.	3.00 to 4.00	3.25 to 4.00	4.00 to 5.00
Laborers, including servants.	1.50 to 1.75	1.50 to 1.75	2.25 to 3.00
Firemen.	2.00 to 2.25	2.25 to 2.50	2.25 to 3.25

During the periods given above, Mr. Greene adds:

"There have been violent temporary changes in the rates, but the average has been fairly reached. In many cases houses and rooms have been given and facilities for making overtime. This last has largely increased the earnings of sober, steady men. A general rule, the conditions of life are so undesirable that the best classes of men are seldom willing to go there."

During these twenty years the only currency has been the paper dollar or peso and the subsidiary silver of low value, until June last.

With reference to wages in the center of Chile, Mr. James M. Dobbs, United States Consul in Valparaiso, furnishes me with the following:

Class.	1875.	Average for 1885.	1895.
	Pesos.	Pesos.	Pesos.
Ordinary laborers.	1.00	1.00	1.50
Mason.	1.00	1.50	2.00
Carpenters.	2.00	3.00	4.00
Painters.	2.00	3.00	4.00
	1.50	2.00	3.00

With regard to wages in the South, Mr. William Taylor, Consular Agent in Coronel, reports as follows:

"In the year 1878 laborers' wages ranged from 60 to 70 cents per day. From that time until the year 1889 a gradual increase has been the result, so that their daily pay amounted to an average of 1.75 pesos, with the exception of the harvest time, when men were scarce. At that time of the year they earned about 2 pesos per day. From 1889 until the present wages are more or less the same, and this rate of labor is irrespective of the rise or fall in exchange. The reason laborers' wages increased from 1878 to 1889 was owing to the construction of the Aranco Railway, a distance of 651 miles, connecting Coronel, in the South, in direct communication with Valparaiso.

"General or domestic servants have increased in their monthly salaries considerably, say 80 per cent. on wages paid in 1876, which was 6 to 7 pesos per month with food. Men servants, since 1876, have increased but slightly. Their monthly wages then amounted to from 20 to 25 pesos without food. At present it amounts to 25 to 30 pesos, also without food. Shopmen were paid in 1876 from 40 to 70 pesos. At the present day they received from 45 to 80 pesos without food. Railway mechanics receive from 2 to 3 pesos per day. The daily pay of miners at present is 1.25 pesos, and has been for the last five years. Previous to 1873 the average wages were 80 cents a day without food.

Regarding salaries of Government employees, the Diplomatic Corps is paid in pounds sterling, and is therefore independent of the fluctuations of money at home. By the Act of January, 1880, the salaries of the officials of the provincial governments were materially raised, but the general masses of employees have been compelled to suffer the effects of the depreciation of money without increase of compensation. The salaries of post-office employees, for example, are fixed by the Act of November 9, 1875, when the peso was worth more than 43 pence; and the salaries of the custom-house employees, with slight exceptions, by the Act of January, 1883, when the peso was worth about 38 pence.

The above information is incomplete, but it is sufficient to show that the rise in wages has not corresponded to the depreciation in money. It must also be remembered that in a country like Chile, which is in a state of development, it would be natural to expect an increase of wages in twenty years—from 1875 to 1895—even if there had been no depreciation.

Neither has there been in the actual necessities of life a proportionate increase in the price. In imported articles, however—as importing houses have been in the habit of covering themselves by immediately realizing sales by drafts at current rates—there has been a fluctuation in price almost exactly equivalent to the fluctuations in exchange. The depreciation in money, then, has probably weighed more upon the class of employees, commercial and Government, who are in need of imported articles, than upon the ordinary day laborer who is content with native products.

It may be taken for granted that in Chile, as in all other countries which have had a like financial experience, the consequences of cheap money have weighed most heavily upon the classes that are least able to support the burden.

The injurious effects of the depreciation of paper on the wage-earning classes and upon property holders has been well stated by a writer upon this subject in the following passage:

"Agriculturists, the owners of certain industries, and speculators have escaped more or less the inclined plane of the depreciation of our money, but the majority of Chileans have reached at this moment an unendurable and precarious situation. Laborers have seen their wages increased, but their habitations, food, and clothing have increased in price in the same or in greater proportion to their wages. Artisans and small tradesmen have seen the cash value of their products diminish in the same manner. To-day they earn 3 pesos, while yesterday they earned 1; but the 2 pesos to-day represent 26 pence, and the former peso was worth 45. The same has happened to all tradesmen and manufacturers who, although they have sold their produce at prices apparently high, have, on the other hand, produced or bought at an exaggerated cost on account of the depreciation of money.

"The situation has been more serious still for those people who have not been able to indemnify themselves even in part for the losses which they have suffered by the depreciation of paper. All those who at the period of the emission of paper money had capital invested for long periods in mortgages, bank stock, and Government bonds, were the creditors for the gold peso of 45 pence and received interest in the same coin. For these people every penny less in the value of the paper peso has meant a loss of 2½ per cent. of their former capital. When exchange reached 22½ pence they lost 50 per cent., and with exchange at 13 per cent. they only preserved one-third of their former fortunes. And what can I say of public employees who form a class as numerous and as worthy of consideration as the preceding? The State has gone on increasing its income by reason of the natural development of the country and of the very great depreciation of the money in which the employees are paid; but the surplus has been applied with preference to the construction of public

"works and sustaining a foreign war or a civil struggle which may have been necessary, but which have produced no advantage to these employees.

"The salaries of the immense majority of the Government officials of every class have remained fixed at the same rate as when they were paid in the happy times of gold. As the money in which they are to-day paid is worth less than one-third of what it was then worth, they have been obliged to reduce their necessities in equal proportion; and to-day, with an exchange of 13 pence, it is no exaggeration to say that they are on the verge of starvation. Some speculators profit by the situation; but the day laborer, the artisan, those who exercise the liberal professions, the entire class of public and private employees who live on their incomes or pensions, the holders of mortgages, the owners of bank stock, tradesmen, etc., are to-day in desperate straits owing to the depreciation of wages, salaries, incomes, and pensions, and the enormous increase in the price of the necessities of life."

THE RESUMPTION OF SPECIE PAYMENTS.

PREPARATORY MEASURES.

The question of the resumption of specie payment in Chile did not occupy the attention of leading men or of the Government at a time when the operation could have been made with comparative ease, that is, within a few years subsequent to the war with Bolivia and Peru. The income of the Government had been greatly increased by the tax upon the nitrate exported from the conquered territory; the value of the paper money was not much below par, and the interests in favor of its continuation had not yet had time to attain importance and influence. There is no explanation of the neglect to consider this important question except, perhaps, the want of initiation on the part of the administration in power. Chile has a parliamentary Government, and of course all important questions are presented to the Chambers by the ministers.

For the first time, in 1885, there was introduced into the budget a small appropriation of 600,000 pesos destined to the withdrawal of a corresponding amount of paper money. The same amount for the same purpose was appropriated in the budget of 1887. None of the paper in circulation, however, was retired, and these two appropriations remained unused.

With the beginning of the administration of President Balmaceda serious consideration began to be given to the question of resumption, and in the year 1887 a bill was presented to the Congress by the Minister of Finance, Señor Agustín Edwards. This bill became a law on March 14 of that year, but was rather for the purpose of preparing the way for resumption than for making any definite provision for a final settlement of the question. The object of the act was to give tone to the paper money by reducing its circulation and by accumulating a fund of silver which would provisionally serve as a guaranty, and could be ultimately used for the redemption of the Government notes. The act therefore provided that, commencing from January 1, 1887, there should be incirculated monthly 100,000 pesos of these notes until the issue was reduced to 18,000,000 pesos. During 1887 and 1888, 200,000 pesos, and during subsequent years, 1,500,000 pesos were to be devoted annually to the purchase of silver pesos or silver bullion, which was to be deposited in the mint as a guaranty for the Government notes, and could not be used except when the time for their redemption arrived. The act also restricted the amount of notes that a bank could issue to 100 per cent. of its capital instead of the 150 per cent. authorized by the Banking Act of July 25, 1869, and required the banks to furnish a guaranty for 100 per cent. of their paper issue. It also re-established the article of the Act of July 23, 1890, prohibiting the issue of bank notes for a less sum than 20 pesos.

In consequence of the punctual observance of this law, on December 31, 1890, the Government notes in circulation had been reduced to 12,383,916 pesos, and in the vaults of the mint there was stored up silver bullion amounting to \$3,411,987 pesos. The further operation of the law was checked by the civil war, which broke out in January, 1891, between President Balmaceda and the Congress. On May 5 of the same year the President was authorized to dispose of the silver bullion accumulated in the mint under the Act of March 14, 1887, and in consequence a portion of the silver equivalent to 1,491,194.46 pesos, of 25 grams nine-tenths fine, was employed as follows:

	Pesos.
Used by the mint for coining the fractional silver coins of two-tenths fineness.....	350,841.95
sent abroad to pay for a ship purchased in Buenos Ayres by President Balmaceda.....	993,841.51
Used to exchange the so called redeemable notes issued according to the Act of June 25, 1890.....	149,194.46
Total.....	1,491,194.46

At the close of the revolution the Government of President Montt, the successor of President Balmaceda, again began to carry out the provisions of the Act of March 14, 1887, for the incineration of paper money and the purchase of silver; but it was soon seen that this law was inadequate for the financial problem to be solved. While it prepared the way to return to specie payment it fixed no definite date for resumption. In consequence of the continued depreciation of silver, the Government was accumulating

* Deputy Maximiliano Díaz, La Cuestión Económica, pp. 73, 74.

a metal the market value of which was diminishing. Further accumulation of silver imposed by this law was, therefore, contrary to the interests of the State.

The Government of President Montt determined to press upon Congress the advantage of legislation more definite and satisfactory than the Act of 1887, but before adopting measures for proceeding directly to specie payment it was necessary to make some arrangement regarding the other part of the floating debt, which had largely accumulated in consequence of the civil war.

For this purpose, by an act of August 8, 1892, Congress authorized the President to make a loan of £1,800,000 sterling, and by virtue of this authorization a loan contract was made in the following October with the house of N. M. Rothschild & Sons, London. In accordance with this contract, bonds were issued through these bankers, at 5 per cent. interest, the price being 95. The net sum produced by the operation was \$1,647,000, upon which the Chilean Government drew drafts during 1892. The result of the loan was applied to the clearing off of the current account with the banks of the country, and to the payment of the treasury notes which had been issued in accordance with the Act of February 2, 1892.

Having thus transformed a part of the floating debt into a consolidated debt, there remained to be disposed of the balance of the floating debt, represented by the Government notes in circulation.

DISCUSSION INVOLVED NO SUGGESTION OF A RETURN TO THE FREE COINAGE OF

BOTH METALS.

The Government fully recognized the difficulties in the way of a return to a metallic circulation, and the important interests opposed to any legislation for that purpose.

In a speech on June 28, 1892, presenting the financial measures of the Government, Señor Enrique Mac Iver, Minister of Finance, alluded to these difficulties as follows:

"I am fully aware, Mr. President, that the purpose of converting and retiring the paper money in circulation has excited resistance. Nevertheless, the situation of the country there are born interests more or less considerable, and at times very worthy of attention. They create parties that are even powerful like the party of the Greenbackers of the United States. In any society where a hundred men can be found ready to give their lives for their country there will probably not be found 10 willing to sacrifice their fortune to the common good. Chile can not escape the consequences of this economic law. Those interests will be represented and will make themselves heard in the country in a form more or less energetic and effective. They will not inaugurate a party; they will not raise an economic banner; they will not attack our purpose of returning to specie payment; but they will retard, disturb, and hamper the solution of the monetary problem."

Chile has large interests in silver and is but a small producer of gold. Until the establishment of paper money, in 1878, the system of free coinage of silver and gold at a fixed ratio had always prevailed. It was to be supposed, therefore, that during the discussion of the resumption of specie payment which occupied a great part of the attention of the House and Senate in ordinary and extraordinary sessions from June, 1892, until February, 1893, there would have been some consideration of the question of a bill or an amendment looking toward the return to the bimetallic system. But the experience of the country while free coinage was in force, which has already been described, seems to have warned the Chilean Congress against reverting to the double standard; nor was there any proposition for the adoption of silver as the single standard, which may be accounted for by the recollection of the loss which the Government had sustained in the silver accumulated under the Act of 1887. Whatever the reason may be, during the long debates in which many of the speeches show great knowledge and extensive study of finance, not only was there no proposition brought forth providing for a return to the system of free coinage of both metals or for the introduction of silver as a single standard, but the advantage of any action of this kind was not even discussed. There was only one speech, that of Señor González Errázuriz, in the session of the House on August 25, 1892, in which the question of the relative claims of gold and silver was considered at some length. As the matter is of some interest, I give the following extract, which describes the result of the bimetallic system in Chile:

"Bimetalism, that is to say, the system which attributes to gold money and silver money equal power of payment, whenever the amount of the debt, is a system which has been condemned by experience, and, among us, has given most fatal results. We must remember, in fact, that the law of 1851, which is in force to this day, gave equal power in the payment of debts to both the gold and silver peso, fixing the value of both at about 45 pence English money. While this law was in force we had a rise in the value of silver which resulted in the exportation of the silver coin and thereby enormously impeded small transactions. We then had a fall in the price of silver to such a considerable extent that it resulted in the complete disappearance of the gold coin."

"And this is what must always happen. Under a law fixing an equal value for a gold and silver coin, commerce, which cannot be chained down by any law, destroys

"is equality, and, in consequence, the coin of greater value ceases to be a coin in order to be converted into merchandise of easy exportation.

"This is what has happened to us. While the law fixed the value of our silver pesos at 45 pence, silver kept falling in the markets of the world to such an extent that in 1877 our peso was worth 28 pence. In that year there did not remain in circulation a single gold coin, for gold in the country was sold at a premium—that is, it became merchandise.

"Whatever restriction the law places upon the export of the more valuable coin or upon the coinage of the less valuable, economic laws must be executed, leaving only the cheaper coin in the countries where the bimetallic system is in force.

"For these phenomena to occur it is not necessary that there should be a period of crisis. These phenomena occur naturally at the moment the equality of the value of the two coins is destroyed; and as soon as this equality is destroyed, there results a monetary crisis which is the more intense the greater the fall in value of the metal that remains, and the greater the amount which was in circulation of the metal which goes.

"Countries under the system of bimetallicism, therefore, are doomed except under very exceptional circumstances, to lose one of their coins, and to suffer monetary crises in consequence of that loss.

"We must, therefore, decide at once, now that we are about to enact a coinage law, which is the metal that suits us most.

"There are powerful arguments in favor of silver.

"We are a country which produces silver in abundance, while we only produce gold in very small quantities. The neighboring countries likewise produce enormous quantities of silver, and the industries based upon this metal help our own industries.

"We owe to silver a great part of our prosperity, and we expect still more from it. I may, therefore, be said that we ought to tone it, give it value, make it our money.

"But in spite of all this, this system does not suit us. Silver money corresponds to another stage of civilization, to restricted necessities of trade—a condition which, happily, is no longer ours. Transactions are impossible in a coin in which 1,000 pesos weigh 25 kilograms. The adoption of silver money would conduct us inevitably to the admission of bank notes in the custom-houses, Government offices, and wherever there is payment of funds of any importance. It would not be possible to receive import duties in cart loads. Nor would it be advisable to contract for carts to carry to the President of the Republic his monthly salary.

"Paper money has a great advantage. It is the most economic money which can be imagined. In spite of this, we are banishing paper money because it does not possess one of the essential qualities of money—stability. Silver has varied in value as much as paper money, and in these last six months still more. The law of 1851 gave to our silver peso a value equivalent to 45 pence, but the value of the silver peso, which had risen to 51 pence at the time of the discovery of gold in California, fell afterward to no more than 28 pence at the time of the enactment of the paper money law. When in the month of June of this year the minister of finance explained in this house the financial proposals of the Government, the silver peso was not worth more than 28 pence. To-day it is not worth more than 28 pence. In two months our old silver dollar fell 4 pence. * * * It is impossible, then, for us, however much we may regret it, to adopt silver except as a subsidiary coinage, as established by the bill of the committee of finance. We must agree to adopt the system of gold coinage."

On the subject, I give an extract from an article by Señor Z. Rodríguez, professor of political economy in the University of Chile and superintendent of customs, who is regarded as one of the best authorities in finance in the country:

"Should Chile, a country which is a producer of silver, lay aside every other consideration and adopt a measure of value and an instrument of exchange which is inadequate and imperfect? If it were a question of choosing between two monetary systems equally useful, acceptable and adequate, one of which is gold for its basis and the other silver, Chile, as a producer of silver, should decide in favor of that metal.

"Although, in comparison with the total production of silver, which is rapidly increasing, the part played by Chile is relatively insignificant, and although the adoption of the single standard of silver, or the double standard, would mean but a slight increase in the use of the white metal, and consequently in its value, it would be just and rational to take into account this advantage in order to make us men to the side of the double standard or the single standard of silver.

"But if this is not the case, if it can be demonstrated that the system of the double standard is prejudicial or impracticable, and that silver is inadequate to serve as a common measure of value and little fitted for the fabrication of those instruments of exchange which are called coins, we must then lay aside, as a secondary consideration, the circumstance that Chile is a producer of silver, in order that we may adopt a monetary system which will answer its purpose, which will not place us in a situation of inferiority in our transactions with foreign countries, and which, for business at home, will provide us with the most suitable instrument of exchange from the point of view of stability of value and facility in use.

"The supporters of the double standard, or of the single standard of silver, would not, in fact, argue that because a country is a producer of a raw material it is a reason why it should employ it foolishly in the manufacture of all the instruments, utensils, and other objects which the country needs for its use. Although we are producers of wool and hides, no one would argue that this is a sufficient reason for inducing us to substitute wool for cotton in clothing, in which the use of cotton is more convenient, more healthy, or more economical, or for using skins instead of cloth; nor would anyone seriously contemplate the advantage of abandoning plows, or tools of iron and steel which we do not produce, in order to make them of copper, because Chile is one of the great producers of the latter metal. And why? Because, in the selection of machines, tools, etc., the first quality they must have, without which all others are useless, is that they should answer their purpose. From necessity, and not to effect a rise in the price of copper, our colonial ancestors employed that metal in the manufacture of plows, nails, and utensils, which they afterward abandoned to use those which we now use made of foreign material, but more suitable for their purpose.

"The case of silver is precisely the same. If it is one of the indispensable wheels in every monetary system, it is lacking in some of the very first qualities for competing with gold in every kind of transaction and as a general measure of value. If the system of the double monetary standard could exist for some years in certain countries without encountering grave difficulties, it was due to the parallelism which existed during that period between the market values of gold and silver.

"Since the parallelism disappeared, that is since 1874, as a result of the gradual fall in the value of silver, the system of the double standard has been shaken to its base, and the emigration of gold from the countries which had adopted that system produced an irresistible movement in favor of the contrary system.

"In two words, given the fall in the value of silver, and the great fluctuations in its price by day, the system of the double standard would only be a disastrous business, if it were possible for the country which adopted it, but it is scientifically an absurdity, and practically an impossibility.

"If, therefore, we cannot have two measures of value, which of the two, gold or silver, will be the more advantageous for us to adopt as the raw material for our coinage? The argument of the supporters of silver has been considered. Although the adoption of silver would not materially increase its use nor produce a sensible rise in its value, their argument ought, nevertheless, to induce us to prefer silver under equal circumstances. But, unfortunately, the circumstances are very different. Gold has in its favor two qualities in which silver is lacking. One of these is of primary importance and the other worthy of attention. The value of gold is much less variable than that of silver, and no one is ignorant that relative stability of value is the first of the qualities we must look for in choosing the marketable product which is to serve as our monetary unit; and the yellow metal, being much more precious than the white, is employed much more easily and conveniently for payments of some consideration.

"Aside from these reasons, there is a practical one which, to a certain extent, places governments—at least, as long as there is no international agreement in favor of bimetallicism, a thing which appears impossible—in the necessity of going with the current by adopting the single gold standard. This practical reason is the propriety of avoiding the losses which would result to the country from the unfavorable situation in which it would be placed in relation to international trade by the use of an inferior money, which it would have to receive and with which it could not pay—losses which were unanswerably explained in the International Monetary Congress of 1889. If the nations with which we maintain the most important and frequent relations, such as England, Germany, France and Belgium, use gold coin in their exchange, and if they estimate in gold coin the amounts which we have to pay them, we shall be forced to adopt the same class of money to avoid the losses resulting from the employment of a money of a lower value. To do otherwise would be to impose upon our country a sterile sacrifice in order to obtain a chimerical result.

"To sum up, it appears that at present there is no other monetary system possible for Chile but one based upon the single gold standard, which makes silver money a legal tender only to the amount of 20 or 25 pesos, maintains its value by a limited coinage, and leaves for larger quantities the relation between the two metals to be fixed by trade. Such a system is in harmony with the teachings of science, will give stability to our values, a solid basis to our internal and international transactions, and will keep in the country the amount of gold and silver coin indispensable for its business operations."

OUTLINE OF THE PLAN OF RESUMPTION.

By the Act of September 10, 1892, Congress authorized the making of contracts stipulating for payment in gold or silver. In view of the necessity of increasing the value of the money in circulation before and after resumption, it seemed prudent to give to business men and the public in general the privilege of selecting a stable measure of value for future engagements.

* Z. Rodríguez, Estudios Económicos, pp. 115-117, 119, 120.

In the general plan for the resumption developed by the discussion in Congress there was, as has been stated, entire unanimity regarding the necessity of adopting the gold standard. It was also decided that the final settlement of the Government obligations should be upon the basis of the value in gold of the 25-gram silver peso. This was for the purpose of relieving the country of the charge of repudiation. Under the system of five coins, as already explained, there were two monetary units—the gold peso of 1,335 grams and the silver peso of 25 grams. The obligation of the Government was therefore alternative, as it had the right to make the final payment of its paper in either of these coins. It naturally chose the cheaper coin, which had depreciated from about 4 pence in 1873 to about 16 at the time that the question of resumption began to be seriously discussed in 1892. Provision was therefore made for two resumptions—a final resumption in the gold equivalent of the 25-gram silver peso, and a provisional resumption, at a lower rate, for all who wished to present the Government note for redemption at an earlier date.

There was also no divergence of opinion upon the necessity of withdrawing the notes from circulation and destroying them as soon as paid. In the debates in Congress there were many allusions to the United States, and much admiration expressed at the wonderful development of that country; but upon this point the financial policy of the United States was not regarded as suitable for imitation.

To sum up, although it was necessary to enact several laws before the problem of resumption was successfully solved, the general plan remained unchanged in three important points: (1) The adoption of the gold standard; (2) the final resumption in the equivalent in gold coin of the silver peso, with a provisional resumption at a lower rate; and (3) the withdrawal from circulation and destruction of the Government notes as soon as paid.

The various acts which provided for a return to specie payment were different in detail, but embody the general principles above explained. In view of their importance, as showing the evolution of the question, they will be given in full.

The first result of the deliberation of Congress on the subject was the act of November 26, 1892.

RESUMPTION ACT OF NOVEMBER 26, 1892.

This act replaced the gold and silver coins established by the Act of 1851 by the following, the monetary unit (the gold peso) being equivalent to 24 pence (10 pence being then equal to 1 pound sterling):

Metal.	Coins.	Value in Pesos.	Finesness.	Weight of Each Coin.	
				Legal.	Fine.
Gold.	Condor.....	30.00	11	15.5761	14.6478
	Doblon.....	10.00		7.9895	7.3228
	Escudo.....	5.00		3.9948	3.6611
	Peso.....	1.00		20.0000	.....
Silver.	Two-cent piece.....	20	0.835	2.000	.....
	One-cent piece.....	10		1.000	.....
	Five-cent piece.....	5		.....	.....

Of these coins only the gold were full legal tender, and coined at the mints free of charge. The silver was coined only on Government account and was to be legal tender only to the amount of 20 pesos.

The act authorized a loan of \$1,200,000 in return for Government bills. The paper money thus received was to be incinerated until the amount destroyed reached the 10,000,000 pesos, and the remainder was to be expended in the purchase of gold or silver for the coinage established by the act. During the first six months of 1894, 3,000,000 pesos of paper was to be incinerated, and the same amount of coin put into circulation if, in the previous six months, exchange did not fall below 22½ pence. Under the same conditions, there was to be an incineration of notes, and coin added to the circulation to the extent of 5,000,000 pesos during the second half year of 1894; and each of the half years of 1895. This was equivalent to a conditional resumption of specie payments at the rate of 24 pence. The final resumption was fixed for December 31, 1895, and was to be based on the actual commercial value of the 25-gram silver peso at that date, while the paper money of the Government was not to be a legal tender after July 1, 1896. The banks

*The resumption of specie payment to be made in Chile is not like the resumption which was effected in the United States, where the Government bills were declared convertible, and payment on account of an omission in the law, without withdrawing them from circulation. The result of this omission is that the notes of the United States Government are still in circulation to-day. We shall not proceed in this way. We shall proceed to the payment of these bills and the retirement of the Government paper money, in order not to leave the Republic established as a veritable bank of issue.—Speech of Señor Enrique Mack Ivar, ex-Minister of Finance, House of Deputies, session of May 22, 1892.

No one denies that gold is escaping from the United States. But everyone knows that the plagues caused by the wretched monetary legislation of that country, which has compelled the Government to keep in circulation 90,000,000 pesos of various kinds of notes, and to burn a useless quantity of depreciated silver money.—Speech of Senator Agustín Ross, Senate, session of May 17, 1895.

were required to keep on hand a gold reserve of at least 20 per cent. of their registered issue until the date of the final resumption. During 1893, 25 per cent. and during 1894 and 1895, 50 per cent. of the customs duties were payable in gold, the pound sterling being valued at 6.31 pesos, or, in other words, the peso at 38 pence. During the first half of 1893 drafts on London would be received instead of gold.

CONTINUED DEPRECIATION OF THE PAPER PESO.

The effect of the passage of the Act of November 26, 1892, entirely disappointed the expectations of its supporters. There seems to have been no public confidence in its successful operation.

In accordance with the provision of article 2 sealed bids in paper money were demanded monthly for \$50,000. On January 6, February 6, and March 6, 1893, there were purchased by the public \$149,000, as follows: \$50,000 purchased in January produced 621,423 pesos; \$50,000 purchased in February produced 683,325.50 pesos; \$49,000 purchased in March produced 683,164.17 pesos.

In accordance with the provisions of Article 3, the paper money obtained by the first two sales was incinerated.

In the meantime exchange had been rapidly descending. By referring to the accompanying chart it will be found that in the month of November, when the law was enacted, exchange averaged about 19 pence. From the moment that the bill became a law, however, it descended steadily until at the end of April, 1893, it averaged only 14½ pence.

The conditional character of Articles 4, 5 and 6 of the act, which provided that the Government notes should be redeemed only on the condition that exchange did not fall below a certain point, did not tend to inspire confidence. Article 9, which required 25 per cent. of the customs duties and storage dues to be paid in gold or by draft on London, discriminated against the Government paper and had a depressing effect upon exchange. But the serious defect of the law was the monthly withdrawal and destruction of notes, equivalent to \$50,000, without replacing them by other money. This caused a contraction of the currency, and the result was that the managers of the banks were summoned to an interview with the President and the Minister of Finance, when it was determined to suspend the incineration of the Government paper until Congress should take action.

It will be remembered that the Government had assumed a debt of 8,918,836.68 pesos to the banks for the appropriation of their notes by the Balmaceda Government, and had issued to the banks treasury notes for that amount. In order to relieve the stringency produced by the contraction of the currency, Congress, by the Act of May 13, 1893, made these treasury notes negotiable by indorsement to bearer and current in all the Government offices for the payment of taxes and other public charges. By another act of the same date articles 1, 2, 3, 4, 5, 6 and 8 of the Resumption Act of November 26 were repealed. This put a stop to any further sale of bonds and to the withdrawal from circulation of \$50,000 worth of paper every month without providing a substitute.

After dealing with the financial crisis by the above legislation, Congress then proceeded to pass another Resumption bill, which was expected to remedy the defects of the Act of November 26, 1892. This was the Act of May 31, 1893.

RESUMPTION ACT OF MAY 31, 1893.

The general features of this act are the same as those of the previous act.

There is the gold standard, the gold peso of 24 pence as the monetary unit, with the provisional resumption in this coin, and the final resumption based on the silver peso of 25 grams.

The provisional resumption is deferred until June 1, 1896, and the final resumption until December 31, 1896. The date when the paper money ceases to be a legal tender is postponed until January 1, 1897. Instead of requiring 50 per cent. of the customs duties to be paid in gold during the years 1894 and 1895, half of this amount is payable in paper money.

The great improvement in this scheme of resumption is that no conditions are now fixed for the resumption of specie payment, and instead of being made by stages, it is to be carried through by a single operation. The postponement, however, of the dates of the final and provisional resumption, which betray the uncertainty felt by Congress itself, depressed public confidence and had an injurious effect upon exchange. There was a slight favorable reaction after the passage of the bill, and exchange rose from the monthly average of 13½ pence in May to 15½ in the month of September. It then went steadily downward, until it touched its lowest point in July, 1894, when it averaged 11½ pence, and continued, with slight oscillations, until October of the same year, when, in view of the improved prospects of the prompt and final settlement of the question, it began steadily to rise.

FAILURE TO PROVIDE FOR THE COMPLETE REDEMPTION OF THE BANK NOTES.

The sketch given in the earlier part of this report shows how intimately connected were the banks of issue with the Government as well as with the commerce and industry of the country. It was the bank paper which at first had been made inconvertible, and

this inconvertible paper had driven silver, the last remnant of a metallic circulation, out of the country.

During the régime of paper money the banks had not, in their business, taken into consideration a probability of a return to specie payment on the part of the Government. They had guaranteed loans in account current with great liberality; they had made investments at long periods; they had paid high dividends; but they had made no provision for a reserve in coin for the final redemption of their notes. The amount of these Government bills approached, the bank bills being unsecured, the former would naturally increase in proportion to the probability of the successful resumption of specie payment in the eyes of the public have a greater value than the latter, and a value which would increase in proportion to the probability of the successful resumption of specie payment by the Government. The result would be a disposition to hoard Government paper, and an effort on the part of depositors to draw from the banks their deposits as much as possible in Government notes, of which there were about 30,000,000 pesos in circulation. This would strain the banks and contract the currency. Supposing the resumption of specie payment to have been carried out under either of the above acts, the former case, in order to obtain the necessary resources, they would be compelled to force of a general financial crisis. In the latter case there would be 19,000,000 pesos of inconvertible bank notes, and without some repeal of the existing banking legislation, the privilege of increasing this circulation.

The omission of any provision in the Acts of November, 1892, and May, 1893, for the complete redemption of bank notes in circulation must, therefore, have had much to do with producing results which were entirely opposite to the views of the legislature. There did undoubtedly follow upon the passage of these acts a contraction of the currency. According to the opinion of some, the hoarding of Government notes which followed was due to the desire of people to hold these notes until the final resumption seems possible that there should have been a disposition to lose the interest on money for several years for the purpose of exchanging Government notes for the equivalent of a coin the value of which was continually depreciating. It is much more probable that such hoarding was due to a desire to hold Government notes instead of bank notes at a date of a provisional resumption at 24 pence. There began to prevail a feeling of confidence, which made more acute the financial crisis which followed the two Resumption Acts. The return to specie payment was impossible without provision for the simultaneous redemption of the bank notes, and it was only when this was seen, as it was seen later, that the success of the operation became assured.

UNFAVORABLE OUTLOOK FOR RESUMPTION.

In Chile, as in all countries where a system of fiduciary paper has existed, there have sprung up important interests, the representatives of which were not only entirely satisfied with the existing state of affairs but were quite willing for it to continue indefinitely. As the price of labor did not increase in proportion to the depreciation of paper, the agricultural property holder, the mine owner, and other large employers of labor, sold their products at higher rates with less cost of production. But in spite of the existence of such interests there has been formed in Chile no political party or faction which has openly declared itself in favor of the continuance of the system as such. There has not even been a public man of prominence, nor a paper of influence to argue, in so many words, in favor of the indefinite postponement of the redemption by the Government of its paper. Public opinion, as indicated by what has been written on a subject that has been agitating the country for years, was divided, not as for or against resumption, but upon the method of its accomplishment.

One class of persons has been in favor of bringing the system to an end at a fixed date. They have demanded the abolition of inconvertible paper, not only on the grounds of expediency, but of honesty. According to them the system was the cause of the withdrawal of investments from the country and an impediment to the introduction of foreign capital into the country; it converted ordinary operations of commerce into a subject of speculation; and while it existed there could be no stability in values and no security for the future. While it favored a certain class of capitalists, it weighed the question of experience, an issue of inconvertible paper was a forced loan, without interest, to which recourse should only be had by the Government in a great emergency, such as a foreign war. As soon as the country was prosperous and had ample resources to meet its engagements a further postponement was dishonest, and the further depreciation of the paper money, and the greater the probability of a public, who has through all his influence in favor of a prompt resumption of specie payment at a fixed date.

The other class of persons has equally declared itself in favor of the prompt resumption of specie payment, but has been opposed to fixing any date for the operation. The

depreciation, according to them, did not come from any lack of confidence in the ultimate redemption of the Government notes, but from other reasons, principally from the commercial inequality resulting from adverse balances of trade. The resumption of specie payment fixed by law to go into effect on a certain date was artificial, when it should result from natural causes. The paper money had depreciated because the country, not the Government, was poor. The country must grow richer before the resumption could be accomplished. The redemption of the Government notes depended upon the prosperity of the individual rather than upon the responsibility of the nation. Resources should be developed and a permanent condition effected which should cause the country to export more than it imports. Exchange would then rise, and the resumption would take place naturally; otherwise the gold would leave the country as soon as issued from the mint.

Those who for motives of interest would gladly have seen the abolition of the paper circulation indefinitely postponed, instead of openly declaring their views, naturally attached themselves to this second class, whose method amounted to indefinite postponement, requiring, as it did, the Government to wait for its paper to become valuable before redeeming it.

There is no doubt that the position of the class in favor of resumption at a fixed date was weakened and that of their opponents strengthened by the disappointing results of the Acts of 1892 and 1893. In the political campaign which preceded the election of deputies and senators in 1894 the question played an important part. In the previous Congress, which followed the revolution of 1891, the supporters of President Balmaceda, who have since taken the name of Liberal Democrats, were not represented. This party, which appeared in the elections of 1894, opposed the Resumption Acts to a man, and they were successful in their election far beyond their own expectations and the fears of their opponents.

RESUMPTION RENDERED POSSIBLE BY A COMPROMISE.

At the meeting of Congress on June 1, 1894, the resumption of specie payment in accordance with the provisions of the Acts of November, 1892, and May, 1893, appeared hopeless. Exchange, which on March 1, 1893, the month of election, had averaged 121 pence, had fallen in June to 114 pence—the lowest average it ever reached. The peso, in other words, was worth less than half the amount fixed for its redemption by the above acts.

In his speech at the opening of Congress the President of the Republic declared that the Government was ready to accept or even propose the amendment of the Acts of November, 1892, and May, 1893, but that he must declare that any alteration in these acts which meant the abandonment, direct or indirect, of the proposal to abolish paper money would be injurious to the State, and that any modification of the acts which affected either the accumulation of coin or the date fixed for resumption would have such a character.

During the regular session of Congress, which lasted until the end of August, the question was not considered; but the President called an extra session for October 16, and it was understood that it would be settled one way or the other during this extra session. Early in the session the Balmacedists brought forward a bill for the absolute repeal of the Resumption Acts. It was soon found that, unlike the preceding Congress, the opinion of the majority of the members was opposed to the resumption of specie payment on the basis of 24 pence, and it was evident that any law that could be enacted must be the result of a compromise. For that purpose senators and deputies who had been conspicuous in the debates on the question were consulted by the Minister of Finance, and, after a laborious discussion, the following conclusions were reached:

There was entire uniformity of opinion now as before regarding the adoption of gold as a basis of the monetary system, with silver for a subsidiary coinage. It was decided to hasten the date of resumption, and as the Government was already in possession of the amount necessary for carrying the operation to a conclusion, there was no reason for further delay, which would only tend to encourage speculation and prolong the existing condition of uncertainty and alarm. The provisional resumption was therefore fixed for June 1, 1895, and the final resumption for December 31, 1897. To remedy the grave omission in previous legislation, it was determined to give the fiduciary paper of the banks every kind of security in order that it might be kept in circulation together with the coin, and a contraction of the currency, which might cause serious disturbance, be thus avoided. For this purpose the issue of the bank paper was to be limited to 24,000,000 pesos. The banks were to be compelled to guarantee their entire circulation of notes with securities which were approved of by the Government, and were of a character to inspire complete confidence. With such a guaranty the bank notes were to be received in the Government offices in payment of taxes and other public dues, and the Government was to assume the obligation of realizing the guaranty by selling the notes of any bank which suspended payment. The point in the discussion where the greatest divergence of opinion appeared was the rate per peso at which the Government notes should be paid. The Acts of 1892 and 1893 had established that the unit of value should be the gold peso of 24 pence. Since that time exchange had

filen to less than half that amount, so that the acceptance of this rate, it was argued, would cause great disturbances in the economic situation of the country, as it would double at a stroke the value of existing securities, and would impose a double charge upon the debtor class. On the other hand, it was admitted that interests had grown out of the passage of the preceding acts, and that these interests, based upon the prospect of resumption at 24 pence, should be also regarded. It was therefore decided to submit to Congress and leave to its decision two rates for the payment of the peso—that is, whether the peso should be redeemed at 16 or at 18 pence. It must be remembered that the basis of the final resumption of specie payment in Chile has always been the silver peso of 25 grams. It was estimated that taking the final resumption on December 31, 1897, in the value of this coin, which was, at the time of these discussions, worth not more than 21 pence, and deducting interest for two years, a fair value of the coin to be issued for a provisional resumption would be less than 18 pence.

A bill embodying the above conclusions was presented to the Senate on January 15, 1898. It passed that body on February 4, and was immediately sent to the Deputies, who, by holding day and night sessions, succeeded in coming to the final vote in the session of February 7, 1898.

By a small majority in both houses 18 pence instead of 16 pence was decided upon as the value to be given to the monetary unit.

The bill was signed by the President and became a law on February 11, 1898.

The translation of this important act is as follows:

RESUMPTION ACT OF FEBRUARY 11, 1898.

ARTICLE 1. On June 1, 1898, the State will pay its notes to those who request it in the coin established by this act. These notes shall be incriminated monthly.

ART. 2. From December 31, 1897, the paper money of the State shall be paid on presentation at the offices designated by the President of the Republic with the gold coin created by this act on the basis of the value of the peso of 25 grams silver, nine-tenths fineness, and from that date the Government hills shall be dematerialized.

On the same date the obligations of the State contracted prior to this date shall be liquidated, and, for the purposes of this liquidation, the nominal value of such obligation shall be computed in the silver-ninth cent peso of 25 grams, nine-tenths fineness, and reduced to the coin established by this act, with which the service of such obligations shall be continued.

The payment and liquidation referred to in the two previous paragraphs shall only take place in case the value of the silver peso of 25 grams and nine-tenths fineness shall on the date mentioned have a value greater than 18 pence. Otherwise the provisions of Articles 1 and 10 of this act shall apply.

ART. 3. The President of the Republic is authorized for a period of three years to coin up to 10,000,000 pesos in the silver coin provided for by this act, and to buy the bullion necessary for this purpose.

ART. 4. All the proceeds of the sale of nitrate deposits shall be exclusively devoted to the acquisition and coinage of specie.

ART. 5. The President of the Republic is authorized to discount or negotiate abroad advances upon the unpaid portion of the purchase money of the nitrate deposits.

ART. 6. The banks shall guarantee the total value of their issue by deposits in the mint of gold, Government bills, Government bonds, municipal bonds guaranteed by the State, treasury notes, and the bonds of banks which own exclusively mortgage banks. These securities shall be assessed monthly at the rate fixed by the President of the Republic, and the said guaranty shall be made as follows: Seventy per cent. in the three months following the promulgation of this act, and 20 per cent. remaining in the six subsequent months, at the rate of 5 per cent. per month. An execution shall be issued in case of delay in the deposit of this guaranty. In case of the failure of a bank the State shall realize the guaranty, which shall be regarded as a pledge.

The credit proceeding from the bank notes shall, besides, be regarded as a preferred claim above all others filed in the bankruptcy, except the costs and the fee of the liquidator.

ART. 7. The bills guaranteed in the form prescribed in the preceding article shall be received in Government offices in payment of taxes, balances, and all public dues until December 31, 1897. The deposits of bank notes made in the Government offices as a result of pending suits, or any other legal proceedings, shall be regarded as a special deposit.

ART. 8. Until the period referred to in the preceding article the total issue of bank notes is limited to 1,000,000 pesos, distributed in the following manner: 500,000 pesos in the paid-up capital, and 500,000 pesos in the reserve fund.

ART. 9. The banks may use in their issue notes of 20, 50, 100, 500, and 1,000 pesos. After the lapse of a year from the promulgation of this law the present bills of less denomination shall not be accepted in the Government offices, nor may they be kept in circulation.

ART. 10. There shall be three classes of gold coin of the denominations condor, doblon and escudo, of seven-twelfth fineness. The condor shall weigh 11.86807 grams. The doblon shall weigh 5.90408 grams, and the escudo shall weigh 2.95204 grams.

ART. 11. The deviation allowed in the gold coins shall be of 0.002 in the fineness, and in the weight 1 in the condor and doblon, and 2 per thousand in the escudo; and by piece 15.986 milligrams in the condor and doblon, and 7.983 milligrams in the escudo.

ART. 12. The condor shall be worth 30 pesos, the doblon 20 pesos and the escudo 5 pesos.

ART. 13. There shall be four classes of silver coin, one of 100 cents called the peso, and the others of 50 cents, 10 cents and 5 cents, with a fineness of 0.835. The silver peso shall weigh 20 grams, the 50-cent piece 4 grams, the 10-cent piece 2 grams and the 5-cent piece 1 gram.

ART. 14. The deviation allowed in the silver coins shall be 0.001 in the fineness, and in the weight 3 per thousand for the coins of 1 peso, 5 per thousand for the 50-cent piece, 7 per thousand for the 10-cent piece, and 10 per thousand for the 5-cent piece. The deviation allowed in the weight of each coin shall be 10 milligrams per peso, 20 milligrams for the 50-cent piece, 14 milligrams for the 10-cent piece, and 10 milligrams for the 5-cent piece.

ART. 15. On the gold coins there shall be stamped the national coat-of-arms, and on the reverse the coat of arms of the Republic, and the words "Republic of Chile," the value in letters, and the year of the coinage in figures. On the silver coins there shall be stamped a condor, and on the reverse a laurel wreath, and within the wreath the value in letters. There shall likewise be stamped on the obverse or notches, the words "Republic of Chile," the value in letters, and the year of the coinage in figures. The President of the Republic shall fix the model of the dies and the diameter of the gold and silver coins.

ART. 16. The monetary unit shall be the twentieth part of a condor, the tenth part of a doblon, and the fifth part of an escudo, which shall be called peso, and shall be received in payment of all obligations except as provided by the Act of September 10, 1892, and article 2 of this act.

ART. 17. No one is to receive more than 20 pesos in silver coin. The mint will exchange for gold coin the silver pesos presented for that purpose. The Government offices will receive silver coin in payment of any amount whatsoever.

ART. 18. The Government will receive, collect and recon, without charge to the last holder, the coins which may have become defaced in whole or in part, or which may have lost their legal value as the result of natural use. Coins purposely injured shall cease to be legal tender.

ART. 19. The exchange rate for the gold coins is for account of the Government, and the purchase of silver bullion for the mint shall be made without any discount for these expenses.

ART. 20. The pound sterling legally coined in England or Australia shall be legal tender in Chile, and the value shall be \$13.381 per pound.

ART. 21. The Government shall coin the gold bullion which it already has or which it may acquire in the future in accordance with the law.

ART. 22. The Acts of November 26, 1892, and May 31, 1893, are hereby repealed. From this repeal are excepted articles 9 of the Act of 1892, and 5, 6 and 8 of the Act of 1893.

The above act makes no change in the silver coinage established by the act of May 31, 1893, but the gold peso is now the equivalent of 18 pence instead of 24 pence. The following is a table of the coins established by this act, which are now in circulation in Chile:

		Pesos.		Legal.	Fine.	Coin.
				<i>Grams.</i>	<i>Grams.</i>	
Gold.....	Condor.....	20.00	0.835	11.98207	10.98556	\$7.292
	Doblón.....	10.00		5.90408	5.49278	3.440
	Escudo.....	5.00		2.95204	2.74639	1.824
	Peso.....	1.00		20	19.700	.365
Silver.....	50-cent piece.....	.50	0.835	4	3.840	.073*
	10-cent piece.....	.10		2	1.670	.036*
	5-cent piece.....	.05		1	.835	.018*

What is particularly worthy of attention in this monetary system is that, although silver is a subsidiary coinage, the silver peso closely approaches in value to the gold peso, being worth, at the present market price of silver, in the neighborhood of 17½ pence.

SUPPLEMENTARY LEGISLATION.

REDEMPTION OF BANK NOTES.

The Act of February 11, 1895, made an important step in advance over the two preceding Resumption acts by compelling the banks to guarantee the entire amount of their circulation. This guaranty was promptly deposited by the banks. There was still, however, a distinction between the bank bills and the Government bills, inasmuch as no provision was made in the Act of February 11 for the changing of the bills for gold. The Government, therefore, determined to contract a loan for the purpose of placing the bank bills on precisely the same footing as the Government bills by making them exchangeable for gold in the Government offices.

On April 24 the President, therefore, sent a message to Congress which included the following statements:

In the transition from one monetary system to another, important interests are affected. Unfortunately there is an increase of speculation, as well as an anxiety and a want of confidence which disturbs the regular course of business and produces the unexpected withdrawal of foreign capital invested in bonds, bank deposits, and other securities. From this there results a transitory inequality in international exchange, and the necessity of a measure to correct it.

When the United States determined to abolish its inconvertible paper, the law givers understood that without such a measure the value of paper could not be realized; and, as you know, the Act or Federal Law of January 14, 1875, which provided for the resumption of specie payment, conferred upon the Secretary of the Treasury unlimited authority to procure gold by the sale and sale of bonds of the national debt for whatever amount he regarded necessary to carry out the object of the act.

The bill which I have the honor to submit to your deliberation has the same object in view. It proposes to contract a loan destined to remove the obstacles which may embarrass the execution of the law and strengthen the confidence of the public in the regularity and efficiency of the operations which are to assure this result.

The responsibility which the Act of February has imposed upon the State, with reference to the bank bills, places it in the situation of a veritable surety for those notes; and these bills in their present condition constitute a disturbing element in the operation of redemption.

In order to remove this difficulty, without increasing the responsibility already assumed, it is considered advisable to provide for the payment in gold of the said notes by the State, and for the incineration of those notes which are not redeemed by the bank by which they were issued.

With the above message the President presented to Congress a bill which, with some modifications, became a law on May 28. This act authorized a loan to be negotiated abroad for \$2,000,000. With the proceeds of this loan the Government was authorized to redeem in gold the bank bills which should be presented for that purpose to the Government offices until December 31, 1897, and of which there were in circulation almost 200,000,000 pesos.

This act, therefore, placed the bank bills already guaranteed on precisely the same footing as the Government bills in reference to the public. The Government assumed the responsibility of exchanging them for gold, the banks having the right to redeem monetary bills already exchanged. If the bills were not redeemed by the bank, they

* Calculated on the basis of silver at 67.50 cents per fine ounce. When the commercial value of silver is greater than this, the silver peso (of any of the subsidiary coins) will be more valuable than the gold peso.

were incinerated and the bank to whose issue they belonged was compelled to sign obligations in favor of the Government to redeem them within a certain period by installments, and at a certain rate of interest. The guaranty already deposited by the banks in pursuance of the Act of February 11, 1895, was security for the payment of these obligations.

On May 31, 1895, in accordance with the authority given by the act, a contract was signed between the Chilean Minister in London and the house of N. M. Rothschild & Sons. The terms of the loan were bonds at $4\frac{1}{2}$ per cent. interest and one-half per cent. sinking fund. The price fixed was 93 $\frac{1}{2}$, and the cash proceeds amounted to £1,825,000. The loan was issued on June 1, with complete success, and was covered more than twenty times by more than 5,000 subscribers.

This act is the last of the resumption legislation.

THE OPERATIONS OF RESUMPTION.

The Resumption Act went promptly into effect on June 1, the Government paying out gold for its bills and for the bank bills.

The amount of the Government and bank bills exchanged from the date of the resumption, June 1, 1895, to January 15, 1896, is as follows:

Exchanged in	Treasury Notes.	Government Bills.	Bank Bills.	Total.
	<i>Pesos.</i>	<i>Pesos.</i>	<i>Pesos.</i>	<i>Pesos.</i>
June	8,062,061.08	6,364,564.00	1,411,589.00	15,838,164.03
July	393,627.25	3,552,054.00	3,621,232.00	7,513,533.25
August	139,854.25	2,121,754.00	3,294,965.00	5,555,542.25
September	28,000.0	1,787,048.50	3,387,600.00	5,098,388.50
October	65,636.05	2,330,576.00	3,947,630.00	6,339,792.05
November	85,800.00	1,302,388.00	4,512,585.00	6,468,653.00
December	25,000.00	1,300,360.00	5,537,905.00	6,923,265.00
January 1 to 15	12,500.00	427,524.00	5,529,175.00	5,669,199.80
Total	8,721,528.58	19,837,347.50	31,441,561.00	60,000,437.00
Less bank bills redeemed by the banks.	.....	.....	.....	24,910,336.00
Total	8,721,528.58	19,837,347.50	6,531,175.00	35,090,051.08

COURSE OF EXCHANGE.

The fluctuations of exchange since the date of the resumption on June 1, 1895, will be seen by the following quotations:

Date.	Pence.	Date.	Pence.	Date.	Pence.	Date.	Pence.
June 1	17 $\frac{1}{2}$	July 8	16 $\frac{1}{2}$	July 24	17 $\frac{1}{2}$	Oct. 15	17 $\frac{1}{2}$
June 3	17 $\frac{1}{2}$	July 9	16 $\frac{1}{2}$	July 25	16 $\frac{1}{2}$	Oct. 17	17 $\frac{1}{2}$
June 4	17 $\frac{1}{2}$	July 10	16 $\frac{1}{2}$	July 29	17 $\frac{1}{2}$	Oct. 23	17 $\frac{1}{2}$
June 14	17 $\frac{1}{2}$	July 11	16 $\frac{1}{2}$	July 31	17 $\frac{1}{2}$	Nov. 2	17 $\frac{1}{2}$
June 21	17 $\frac{1}{2}$	July 12	17 $\frac{1}{2}$	Aug. 3	17 $\frac{1}{2}$	Nov. 4	17 $\frac{1}{2}$
June 24	17 $\frac{1}{2}$	July 15	17 $\frac{1}{2}$	Aug. 10	17 $\frac{1}{2}$	Nov. 13	17 $\frac{1}{2}$
June 25	17 $\frac{1}{2}$	July 16	17 $\frac{1}{2}$	Aug. 12	17 $\frac{1}{2}$	Dec. 10	17 $\frac{1}{2}$
June 28	17 $\frac{1}{2}$	July 18	17 $\frac{1}{2}$	Aug. 20	17 $\frac{1}{2}$	Dec. 13	17 $\frac{1}{2}$
July 3	17 $\frac{1}{2}$	July 19	17	Aug. 21	17 $\frac{1}{2}$	Dec. 31	17 $\frac{1}{2}$
July 5	17	July 20	17 $\frac{1}{2}$	Sept. 23	17 $\frac{1}{2}$		

Since January 1, 1896, exchange has been steady at about 17 $\frac{1}{2}$.

It will therefore be observed that fluctuations in exchange, as resumption proceeded, became less and less, and that there is, with slight exception, almost a steady rise.

The amount of gold exported abroad through the port of Valparaiso, the principal port of shipment in the Republic, which represents almost the entire amount shipped from the country, from the date of the resumption until December 31, 1895, was 2,353,755 pesos Chilean gold, and £163,450 sterling—equal to about \$1,650,000.

THE SUCCESS OF THE OPERATION.

It has been necessary to wait some time in order to be able to arrive at some conclusion regarding the results of the resumption. The return of a country to specie payment is a day of reckoning which may cause inconvenience—even suffering—to certain interests. While Chile is no exception to this rule, the gloomy forebodings of the opponents of the operation at a fixed date have not been realized. Exchange has risen, the banks are sound, and the amount of gold exported is not sufficient to excite alarm. Meanwhile the adiled inducements for the employment of capital are attested by the fact that two foreign banks have established themselves in the country since the resumption. The results thus far warrant the belief that unless some international complications should arise the intelligence and determination shown by the people in the solution of a monetary problem of great difficulty will be rewarded by a revival of business and a period of continuous prosperity.

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END OF
TITLE